TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2524 - HB 2776

March 7, 2022

SUMMARY OF BILL: Eliminates the professional privilege tax for tax years ending on or after May 31, 2024.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $79,973,500/FY22-23 and Subsequent Years

Decrease State Expenditures – $825,600/FY22-23 and Subsequent Years

Increase Local Revenue – $246,000/FY22-23 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), the occupational privilege tax is a $400 tax on persons engaging in specified occupations in Tennessee, due and payable on June 1 of each year.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- The first year for which the occupational privilege tax will be eliminated is the tax year ending on May 31, 2024, for which the tax is currently due on June 1, 2023. Taxes for tax year ending May 31, 2023, will be collected by the state on June 1, 2022; thus, collected during FY21-22. As a result, the first year that collections will be impacted by this legislation will be FY22-23.
- The Department of Revenue (DOR) reports that there were 201,441 occupational privilege taxpayers in FY20-21. This number is assumed to remain constant into perpetuity.
- The recurring decrease in state revenue is estimated to be $80,576,400 (201,441 x $400).
- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- There are approximately 2,064 state employees for which the State of Tennessee pays the occupational privilege tax. This number is assumed to remain constant into perpetuity.
- The recurring decrease in state expenditures beginning in FY22-23 is estimated to be $825,600 (2,064 x $400).

- Based on information from DOR, 77.59 percent (156,294 out-of-state / 201,441 total) of taxpayers in these occupations are estimated to be out-of-state. Therefore, 22.41 percent of taxpayers live in-state.
- It is assumed that 50 percent of tax savings realized by in-state residents, net of the amounts paid by the state on behalf of such residents, will be spent in the economy on sales taxable goods and services.
- The net recurring tax savings that will be spent in the economy on sales taxable goods and services are estimated to be $8,936,077 [($80,576,400 - $825,600) x 22.41% x 50%].
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue beginning in FY22-23 is estimated to be $602,900 [($8,936,077 x 7.0%) – ($8,936,077 x 7.0% x 3.617%)].
- The total recurring increase in local sales tax revenue beginning in FY22-23 is estimated to be $246,027 [($8,936,077 x 2.5%) + ($8,936,077 x 7.0% x 3.617%)].
- The net recurring decrease in state revenue as a result of this legislation beginning in FY22-23 is estimated to be $79,973,500 ($80,576,400 - $602,900).
- Occupational privilege tax returns are filed electronically and the Department does not have any staff dedicated to this tax. Therefore, there will be no staff reductions as a result of eliminating the occupational privilege tax.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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